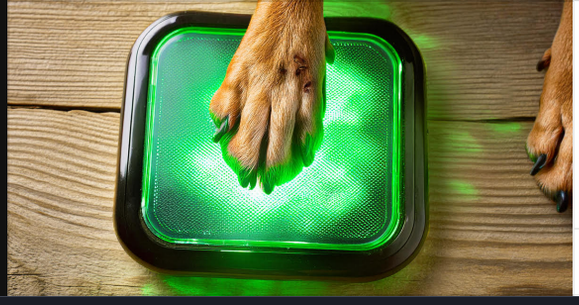
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Help Your Kids With Finances Without Jeopardizing Your Own

Be careful about supporting your children financially, because if you run out of money in retirement it will be a burden on all of you.

By Beth Braverman | Edited by Barri Segal | Reviewed by Susannah Snider, CFP | Aug. 8, 2023, at 11:46 a.m.

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It's important to let your children know how much you can contribute and how long your support will continue. You might even consider scaling back the amount that you give your children gradually over time.

As a parent, you'd do nearly anything to make your kids' lives easier – from helping them with homework assignments and driving them to soccer matches when they're little to soothing their broken hearts or babysitting their children as they get older.

But for an increasing number of parents, supporting their adult children means providing financial assistance, even if it means they are putting their own financial security at risk.

These Sacrifices Can Be Dangerous for Parents and Children

Financial experts say that such sacrifices are dangerous for both parents and children. If the parents run out of resources in retirement, they may end up putting an even greater financial burden on their children. And providing this kind of support can hinder children's ability to create their own financial independence.

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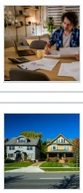

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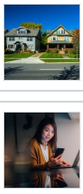

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"Helping your children is important, but if you screw it up, you may only have so many years to be able to make up for financial losses or fix the problem," says Andy Smith, executive director for financial planning at Edelman Financial Engines in Santa Clara, California. "You can borrow for just about everything in this world, except for retirement."

Still, providing financial assistance to adult children remains a priority for many parents. Here's how to do it responsibly:

Related: Financial Pros and Cons of Living With Your Parents

Understand How Much Help You Can Afford

Before shelling out money to your kids, work with a financial planner or run the numbers yourself to understand the long-term financial impact.

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"You don't want the parents to run out of money for themselves, or to run into a conflict with accomplishing their own financial goals," says J. Derieck Hodges, a certified financial planner with Anchor Pointe Wealth Management in Jackson, Mississippi.

"Even if the worst-case scenario doesn't play out, Mom and Dad's lifestyle could be impacted enough that they have to stop traveling or doing other things that they want to do in retirement," he adds.

Once you understand that, your choice may reflect whether your child needs assistance with a one-time problem, such as unexpected medical bills, or an ongoing issue, such as out-of-control credit card debt.

Related: What to Do When You're Deep in Debt

Set Expectations and Stick With Them

Especially for ongoing financial arrangements, like assistance with rent or a car payment, it's important to let your children know how much you can contribute and how long your support will continue. You might even consider scaling back the amount that you give your children gradually over time.

"Helping out shouldn't be viewed or portrayed as a blank check or an ongoing income stream forever," says Connor Spiro, senior financial consultant at John Hancock Advice in Boston. "You want to set clear boundaries."

When your children understand that there's a limit to your financial support, they'll be more likely to focus on adjusting their budgets and lifestyles to continue without that support.

Teach While You Give

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There are ways that you can give financial assistance while also imparting financial lessons that can help your children build their own financial independence.

For example, if your child is eligible for a Roth IRA, you might offer to make contributions (up to $6,500 in 2023) on their behalf, freeing up some cash in their budget while also helping them recognize the importance of saving for the future.

READ: Ways to Teach Kids About Money.

"The younger we can introduce our children to the idea of long-term financial planning, the better off they'll be and the stronger financial literacy base they'll have," says Karen Van Voorhis, director of financial planning at Daniel J. Galli & Associates in Norwell, Massachusetts.

Be Transparent With Your Kids About the Impact on Your Finances

If your children are asking for significant financial assistance, such as a down payment on a home or tuition for their kids, make sure they understand how providing that assistance will affect your own financial security.

This will not only make it easier for you to say "no" if you're unable to provide the level of support they want, but it will also teach them an important lesson regarding thinking about the long-term impact of their own financial obligations.

Give as Efficiently as Possible

If you're giving more than $17,000 (or $34,000 from you and your spouse) to an individual, you'll need to file a gift tax return with the IRS. But there are some situations in which you can give more than the limit, such as paying tuition on someone's behalf directly to the school or paying medical expenses directly to the health care provider. Keep in mind, however, that the 2023 lifetime exemption for gifting is $12.92 million.

If you need to sell investments to free up cash to help your kids, consider the financial implications of that transaction. You may not want to lock in the losses of investments that have gone down in value, for example, but you also want to make sure that you have the funds to cover the capital gains tax on investments that have increased in value over time.

"There are a lot of different land mines to consider when you're making that type of gift," says Michael Tanney, senior managing director of Magnus Financial Group in New York City. "You need to make sure you're properly educated, so you don't end up giving more than you thought because of the cost to you."

Parents Are Moving In With Kids

When it's done right, the benefits of multigenerational living can outweigh the drawbacks of many relatives living under one roof.

Erica Sandberg May 12, 2023

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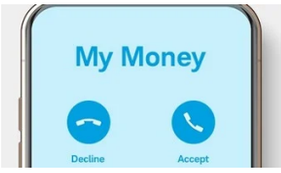

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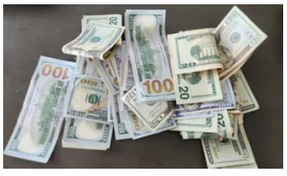

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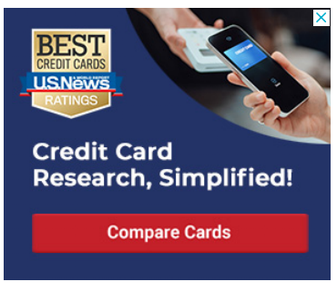

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